



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

FILED

04-03-07
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In the Matter of the Application of)
SAN GABRIEL VALLEY WATER COMPANY)
(U337W) for Authority to Increase Rates Charged)
for Water Service in its Fontana Water Company)
Division by \$5,662,900 or 13.1% in July 2006;)
\$3,072,500 or 6.3% in July 2007; and by \$2,196,000)
or 4.2% in July 2008.)

Application 05-08-021
(Filed August 5, 2005)

Order Instituting Investigation on the)
Commission's Own Motion into the Rates,)
Operations, Practices, Service, and Facilities of)
San Gabriel Valley Water Company)
(Utilities 337 W).)

Investigation 06-03-001
(Filed March 2, 2006)

NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rules 8.2 and 8.3 of the Commission's Rules of Practice and Procedure, San Gabriel Valley Water Company ("San Gabriel") hereby gives notice of an ex parte communication regarding the above captioned general rate case.

On March 28, 2007, at approximately 11:00 a.m., San Gabriel's President, Michael Whitehead; its General Counsel, Timothy Ryan; its Director of Rates and Revenue, Daniel Dell'Osa; and Martin Mattes of Nossaman, Guthner, Knox & Elliott, LLP, counsel for San Gabriel, met with Rami Kahlon, advisor to Commission President Peevey, and Patricia Nataloni, advisor to Commissioner Simon, in the office of President Peevey on the 5th floor at the California Public Utilities Commission, 505 Van Ness Avenue in San Francisco. The meeting lasted approximately 70 minutes.

Mr. Mattes initiated the communication by noting that San Gabriel had requested the present meeting primarily to address and correct certain inaccuracies in recent

communications to Commissioners' advisors by representatives of the Division of Ratepayer Advocates and the City of Fontana regarding the Proposed Decision of Administrative Law Judge Barnett and the Alternate Proposed Decision of Commissioner Bohn currently under consideration in this proceeding. Specifically, Mr. Mattes referred to these parties' ex parte communications regarding the impacts on utility revenues and customer bills of allowing advice letter offsets for investments in San Gabriel's Sandhill Surface Water Treatment Plant upgrade project and its office complex project and regarding San Gabriel's collection of deposits from developers in anticipation of the imposition of facilities fees on new customers.

Mr. Mattes noted that both the Proposed Decision and the Alternate Proposed Decision expressly include \$12 million of the projected investment in the Sandhill project in the calculation of revenue requirement for Test Year 2006-2007, that both the Proposed Decision and the Alternate Proposed Decision found the project to be needed, and that the difference between the two documents concerned the timing for inclusion in rates of up to \$23 million in additional investment in the project. Mr. Mattes and Mr. Ryan explained that the Proposed Decision would defer inclusion of that further investment in rates until San Gabriel's next general rate case, while the Alternate Proposed Decision would allow the filing of one or more rate base offset advice letters to allow rates to be phased-in sooner but more gradually. Based on a table prepared by Mr. Dell'Osa, Mr. Mattes estimated that advice letter treatment of Sandhill project investments over a three-year period would produce a 6.2% increase over three years after taking into account the facilities fees likely to be received during that time period. Mr. Mattes and Mr. Dell'Osa estimated that the Sandhill advice letters together with the facilities fees would cause only a modest increase in average customer bills.

Mr. Mattes also provided a collection of evidence regarding the cost/benefit analysis of the Sandhill project, consisting of prepared testimony and exhibits from the record and cross-examination of San Gabriel's witnesses. He and Mr. Dell'Osa particularly called attention to Table B5, which sets forth the considerable water replenishment costs (pump taxes) and power costs associated with production from wells in the Chino Basin, which will be avoided through greater use of surface water and state water processed through the Sandhill plant.

Mr. Mattes stated that the Sandhill project was primarily intended to provide an economical source of baseload water supply, avoiding the high water supply and energy costs of pumping water from wells at the lowest elevations of the Fontana Water Company system and boosting that water to upper pressure zones serving the much higher elevations where many customers are situated. Mr. Whitehead explained that the Sandhill upgrades will allow the facility to process large volumes of surface water and imported state water at a high elevation on the Fontana Water Company system, from which the treated water will flow by gravity to customers without need for costly pumping. He also explained that San Gabriel has facilities in place to receive sufficient state water into the Sandhill plant to allow it to continue operating at full capacity during summer months when surface flows from Lytle Creek are less than normal. Mr. Whitehead further explained the upgrades to the Sandhill project that distinguish the current \$35 million project from the much less comprehensive project that was considered in San Gabriel's prior general rate case.

With regard to facilities fees, Mr. Whitehead and Mr. Mattes explained that San Gabriel had anticipated issuance of a decision imposing facilities fees at the end of last year and so, pursuant to its Main Extension Rule 15, had begun including the amount of such fees

in the estimate of deposits requested from developers submitting plans to San Gabriel for construction projects likely to occur after the Commission issues its decision in this case. Mr. Whitehead further explained that as the decision was delayed, San Gabriel refunded such deposits to developers – or did not even collect deposits for the estimated facilities fees at all in the projects not likely to be covered by the Commission’s decision in this GRC. Mr. Mattes noted that San Gabriel had requested guidance in this regard from Water Division staff, and he provided copies of relevant correspondence.

Concerning the treatment of proceeds from a settlement of contamination claims, Mr. Whitehead and Mr. Mattes asserted that both the Proposed Decision and the Alternate Proposed decision mistakenly relied on a Southern California Water Company decision as justifying assignment of a high proportion of such proceeds to ratepayers. Mr. Whitehead explained that the Southern California Water Company *Charnock* decision assigned certain polluter reimbursements to ratepayers but assigned to shareholders the proceeds of selling the pollution claims to the City of Santa Monica, and he distinguished the facts of the Southern California Water Company case from the situation in the present case, where ratepayers have been shielded from having to bear any costs whatsoever due to the contamination that occurred.

Mr. Whitehead also addressed the City of Fontana’s political efforts to smear and discredit San Gabriel Valley Water Company. He explained that the City had tried several times over the past two decades to take over San Gabriel’s Fontana Water Company division, and has already appropriated \$1 million to undertake a new study to show the feasibility of restarting the City’s takeover efforts, which is now ongoing.

Three documents were used and provided to Mr. Kahlon and Ms. Nataloni in the course of the March 28 meeting. Copies of the three documents are attached to this notice.

To obtain a copy of this notice, please contact:

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In accordance with Rule 8.3(b), this notice is being served electronically on all persons appearing on the Commission's electronic service list for the above-captioned

Respectfully submitted,

NOSSAMAN, GUTHNER, KNOX & ELLIOTT, LLP

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Attorneys for SAN GABRIEL VALLEY WATER
COMPANY

Dated: April 2, 2007

CERTIFICATE OF SERVICE

I, Jeannie Wong, hereby certify that on this date I will serve the foregoing NOTICE OF EX PARTE COMMUNICATION, on the parties on the service list for A.05-08-021/L.06-03-001 below.

By electronic mail:

dadellosa@sgvwater.com; tjryan@sgvwater.com; jallen@elthlaw.com; dpoulsen@californiasteel.com; sawymt@fUSD.net; Kendall.MacVey@BBKlaw.com; bfinkelstein@turn.org; mlm@cpuc.ca.gov; sel@cpuc.ca.gov; ttf@cpuc.ca.gov; pucservice@manatt.com; cbader340@aol.com; james_peterson@feinstein.senate.gov; plarocco@pe.com; bowen@raolaw.com; smt@tragerlaw.com; jjz@cpuc.ca.gov; scott.sommer@pillsburylaw.com; bda@cpuc.ca.gov; flc@cpuc.ca.gov; jl1@cpuc.ca.gov; kok@cpuc.ca.gov; rac@cpuc.ca.gov; rab@cpuc.ca.gov; dlh@cpuc.ca.gov;

Executed this 2nd day of April, 2007 in San Francisco, California.

/S/ JEANNIE WONG

Jeannie Wong